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Special report on hotels

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Perkins steps up expansion drive

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FOOD

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Nation's
Restaurant News®

The Weekly Newspaper of the Food-Service Industry

Vol. 23, No. 45 | **Published every Monday by Lebhar-Friedman Inc.; $3 a copy, $29.50 a year** | **November 6, 1989**

NRN Photo

Yoshimi Miyazaki, left, and A.C. Smith wait in vain for permission to re-enter their restaurant, Bento Baki, in the Cooper House after the earthquake.

Aftershocks: 'Everything we have is gone'

By Richard Martin

SANTA CRUZ, Calif. — Bleary-eyed and dejected, Yoshimi Miyazaki and her husband, A.C. Smith, waited outside the chain-link barricade emergency workers had thrown up around six blocks of earthquake-ravaged downtown Santa Cruz.

One week earlier the Santa Cruz couple sat stunned in Candlestick Park, unaware that the breathtaking temblor that stopped the World Series had originated 75 miles to the south, in the mountainous outskirts of their hometown.

"Everything we have is gone," said Smith, whose Japanese box-lunch cafe,

*(See **QUAKE**, page 71)*

Fast food seeks boost with bite-sized items

By Peter Romeo

In a nod to the grazing trend, several major fast-food chains are adding a new generation of side dishes and snack-like items to give customers greater flexibility in assembling a meal.

Kentucky Fried Chicken, Carl's Jr., Taco Bell, Roy Rogers and Jack in the Box have already adopted new appetizerlike customer lures, and McDonald's is flirting with the possibility. Dunkin' Donuts tested an unusual finger food as part of a menu-expansion drive that has since been discontinued.

The items, ranging from miniature egg rolls to carrot sticks, represent quick-service specialists' latest effort to rekindle sales by borrowing a few menu strategies from more upscale food-service operations.

For instance, among the items pouring out of KFC's test kitchens are Spicy Drummets — peppery, deep-fried chicken-wing segments that resemble miniature drumsticks. The appetizerlike pieces clearly owe more than a bow to the fiery Buffalo-style chicken wings that have become a staple of casual-theme restaurants in recent years.

Roy Rogers, Marriott's regional fast-food chain, has a somewhat similar product, called Wild Wings, that it puts on the menu from time to time for a quick sales spurt. As part of a six-week promotion, the item is currently being offered with three dipping sauces.

A Carl's Jr. sample of its appetizerlike Jr. Crisp Burritos.

"We view them as a snack or light-meal alternative," said KFC spokesman Dick Detwiler. "We thought that they would appeal to those who have been taken with what's known as grazing."

Grazing is the label that has been applied to a mounting consumer preference for meals comprising several small servings of different foods instead of one large entrée. Many full-service restaurants have addressed the trend by expanding their array of appetizers and offering specialties in half-sized portions.

Appetizer orders rose 33 percent between 1982 and '88, according to the National Restaurant Association.

After testing Drummets in

*(See **FAST FOOD**, page 4)*

NRN unveils design changes next week

With next week's issue, Nov. 13, Nation's Restaurant News will launch a contemporary new design with bolder graphics and an easier-to-read format.

The new look will be one of the biggest changes in Nation's Restaurant News since it converted from biweekly to weekly frequency five years ago.

Watch for it.

As no-smoking rules spread, operators' resistance ebbs

By Carolyn Walkup

As more and more states and municipalities enact laws that require restaurants to have non-smoking sections, operators are learning to adapt to regulations restricting where they can seat customers.

Adapting has gone the most smoothly in locations where laws allow operators flexibility in determining the size of each section. The need to be flexible is emerging as the key issue as laws are being passed and modified.

Operators who have become accustomed to such laws reported few problems in accommodating customer seating preferences, perhaps demonstrating that it takes time to get used to change. But those who are not yet comfortable with new restrictions are experiencing frustrations.

A 1½-year-old New York City law that mandates setting aside 50 percent of seats for non-smoking has aroused the ire of Fred Sampson, New York State Restaurant Association executive director, and of many member operators. "We oppose any mandated set-aside. The ability to deliver a table at

*(See **NON-SMOKING**, page 71)*

FOOD WATCH

Gator chips

LAKE BUENA VISTA, Fla. — Out of the muck and mire of the Florida Everglades here lurks a beastly new taste treat: Gator Chips.

Disney resorts corporate executive chef Johnny Rivers dredges thin pieces of alligator tail or loin in blue cornmeal, seasons them with salt and pepper, and

*(See **FOOD WATCH**, page 71)*

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NEWS DIGEST

McD enrolls 456 units in recycling program

OAK BROOK, Ill. — Embarking on what is believed to be the largest trash-recovery program ever undertaken by a restaurant operator, McDonald's said it would recycle the polystyrene boxes and other plastic materials used in 450 of its New England units.

Under the plan, which begins in 1990, consumers will be asked to discard plastic boxes and wrappers in special receptacles within the units. The containers will then be trucked to a recovery plant and converted into plastic pellets, which in turn will be processed into other products.

The effort is "certainly" the most ambitious ever drafted by a fast-food operator and possibly "the largest plastic recycling effort anywhere," said Paul Keough, an official of the Environmental Protection Agency.

Court denies Rally's request to halt group, leader says

LOUISVILLE, Ky. — The leader of a group seeking control of Rally's Inc., operator here of the Rally's drive-thru chain, said a federal court has denied Rally's request for an injunction to block the raiders' purchase of additional shares in the company.

Entertainment mogul Burt Sugarman, who is marshaling the attempt to seize Rally's helm, said he and two other Rally's directors would persevere in their effort to replace at least two other members of Rally's nine-person board. The group said it already controls 45.2 percent of Rally's shares outstanding.

Rally's alleged in its suit that Sugarman and two allied directors had violated federal security laws by not disclosing their plans to amass a major stake in the company, which initially issued stock on Oct. 12.

Sugarman has countered with accusations that certain of Rally's directors are allied with Wendy's, a rival fast-food chain.

Dunkin' Donuts says it's fielding purchase offers

RANDOLPH, Mass. — Dunkin' Donuts said it has begun accepting formal bids from parties interested in acquiring the company, which franchises the nation's largest chain of doughnut shops.

"No determination has yet been made to sell the company," cautioned Dunkin' chairman Robert Rosenberg, calling the possibility "one alternative." However, in earlier statements the company indicated that it was meeting with suitors while contemplating a management-led leveraged buyout.

"The board has adopted procedures to receive and review proposals in order to determine which alternatives would best serve the interests of the company's shareholders," Rosenberg said.

Pizza Hut buys Romet units in latest expansion push

BOCA RATON, Fla. — Pizza Hut, the nation's largest pizza chain, said it has agreed to buy the 54 units operated by Romet Corp., a franchisee based here.

Terms were not disclosed, but Pizza Hut indicated in a prepared statement that it plans to begin operating the units by Jan. 1. Romet's stores are in Pennsylvania and South Carolina.

Pizza Hut has been building sales in part by acquiring franchisees.

Pangaud confirms he will leave Aurora

NEW YORK — George Pangaud, chef of Joe Baum's swank Aurora restaurant here, has confirmed reports that he will leave the operation next month to open his own place.

Baum's restaurant company, Baum and Whiteman, has yet to name Pangaud's successor.

The French chef has indicated that his solo venture will feature a moderately priced menu.

Shoney's franchisee hit with discrimination suit

TUCKER, Ga. — Atlanta Family Restaurants, Inc., a 45-unit Shoney's franchisee here, is being sued by two former employees who alleged that the company discriminated against blacks.

The suit, filed in U.S. District Court in Atlanta, charged that the operator's policy kept blacks in kitchen positions while whites were given front-of-the-house jobs.

Meanwhile, Shoney's Inc., which is not a defendant in the suit, is complying with an out-of-court settlement with the NAACP Legal Defense and Educational Fund. Two months ago, in a separate development, Shoney's signed a pact with the Southern Christian Leadership Conference to provide blacks with jobs, scholarships and training.

Restaurant loses license after turning away blacks

NORTH AUGUSTA, S.C. — The Buffalo Room, a bar and restaurant that allegedly refused to serve blacks for almost 10 years, has been stripped of its liquor license and has apparently closed despite a change of policy.

Meanwhile, the South Carolina State Conference of the National Association for the Advancement of Colored People is pushing a $1.2 million civil suit against the restaurant's owners, and the U.S. Justice Department also is suing the family which runs the place.

The actions stem from a Sept. 5 incident in which Bruce Salter, in front of reporters and news cameras, refused to admit blacks into his restaurant. A week later, after a storm of negative publicity, Salter reversed the policy.

Morton replaces Arnie's with Italian trattoria

HIGHLAND PARK, Ill. — Celebrated restaurateur Arnie Morton has replaced his Arnie's First Street Pier seafood restaurant here with Brio, an Italian trattoria.

Designed and managed by Roger Greenfield, who closed a group of high-profile restaurants he formerly operated, including Dixie Bar & Grill, Brio features thin-crust pizzas and pastas.

Morton sold his Morton's of Chicago steak-house chain earlier this year. He continues to operate a restaurant here called Morton's and places in Chicago named Arnie's and Morton's Marketplace.

Biloxi's Brown, queen of Broadwater, dies

BILOXI, Miss. — Dorothy Brown, famed operator of the landmark Broadwater Beach hotel here, died at her home in New Orleans. She was reportedly more than 90 years old.

Brown assumed control of the resort property in 1959, following the death of her husband, Joe W. Brown. The hotel, which quietly functioned as a casino during the 1950s, fell into decline after federal authorities cracked down on gaming along the Gulf Coast.

Brown converted the property into a wintertime resort by adding a marina and golf courses. The resort reigned for almost 30 years as one of Biloxi's most popular places to stay.

CRA seeks assistance for quake victims

LOS ANGELES — The California Restaurant Association is seeking cash contributions to a relief fund it has established to help restaurateurs aid earthquake victims in Northern California.

An estimated 10,000 Californians were left homeless by the Oct. 17 quake, half of them in Santa Cruz County, where food-service firms contributed heavily to community food banks and Red Cross shelters.

The CRA said checks to the CRA Earthquake Fund may be mailed to the association's headquarters at 3435 Wilshire Blvd., Los Angeles, Calif. 90010.

FOCUS | OPINION

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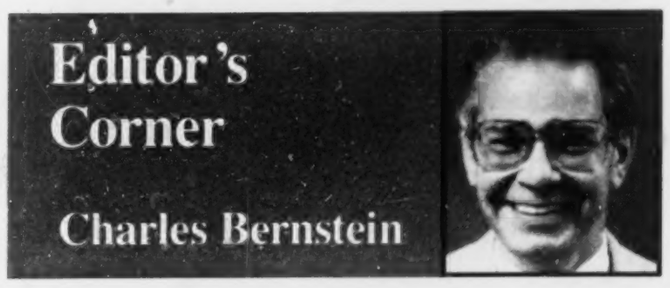
No substitute for tradition, loyalty

With all the hoopla and trendiness today, the good old days don't look so bad: the simple menu and the uncomplicated atmosphere before the industry began growing and long before it developed the problems that come with maturity.

An era ended last month in Glendale, Calif., when the original Big Boy, the predecessor of all Big Boys, closed preparatory to demolition. The Marriott Corp., which bought the chain and the Big Boy franchising rights in 1967, made a hard-nosed decision to sell the original restaurant to a developer of a small shopping mall.



Actually, Bob's Big Boy is destined to become history as a chain within the next two years, assuming that Marriott implements its plans to convert all the units into the far trendier Allie's. Questions have been raised about the productivity and profitability of Allie's and its buffet concept in Marriott's framework, and one hears rumblings, denied by the company, that Marriott might spin it off or sell it.

In any case it is sad that Bob's Big Boys' brown-vinyl-upholstered booths and old-time decor, double-deck burgers, and brownie hot-fudge sundaes will be replaced with pasta salads, Mexican offerings, sourdough and other trendy offerings.

Robert Wian, now 75, who as a wide-eyed 24-year-old bought a 10-seat Glendale diner in 1938 by selling his car for $350, mourned the loss. "I feel terrible about this," he said at the site on the last day. "It's tough to stand in the way of progress, but there's a lot of sentiment tied up in this place."

Wian was honored in 1987 as Nation's Restaurant News' Multi-Unit Food Service Operators (MUFSO) Pioneer of the Year. He was a true industry innovator.

For a refreshing look at the good old days, just consider that when Wian switched his diner to Bob's drive-in in 1940, he retained a "meat and potatoes" menu. It cost only 60 cents then to buy a hamburger and a milk shake "so thick you could eat it with a spoon."

Basic values continued for years, even when the prices doubled. This sort of tradition is a prime ingredient that may be missing from the industry today.

It was Wian who expanded the drive-in concept into Bob's Big Boy sitdown restaurants in the 1940s and obtained the franchising rights for the groups of Big Boys that developed. Many of the groups retained their individuality and were never molded into a cohesive empire, as they might have been. Some even took off the "Big Boy" name.

Marriott sold the ffanchising rights to Elias Brothers Big Boys of Michigan two years ago and kept Bob's Big Boys with the idea of converting them to Allie's.

Actually, Wian's original Big Boys were the forerunner of the modern coffee-shop chain, in effect spawning Sambo's, Denny's, Perkins and others. Wian, Carl Karcher and the McDonald brothers were the California pioneers in the fledgling industry of the 1940s.

Longtime Bob's customers who were there the final day swore by the place. "I really grew up here," said one.

"I used to come here in my old Plymouth, order a Coke and fries and wait for girls. Hard to believe it's closing down. This is a landmark."

"I've eaten thousands of hamburgers here," said another. "I've come here all my life. My mother used to reward me with a hamburger and chocolate shake after clarinet lessons."

Wian launched the double-deck hamburger as a kind of joke to please a customer who wanted something different. But it caught on, and the double-decker became a symbol of Big Boys and gained popularity through much of the industry.

The Big Boy symbol, a statue of a chubby boy with suspenders, was adapted by Wian from a sketch that a customer drew on a napkin, depicting a boy cleaning counters at the restaurant. It became a national emblem.

Wian understandably can't bear to give up his original Big Boy completely. His first spatula and menu from the restaurant, which were displayed in a glass case there until the closing a few weeks ago, will soon be placed in his Newport Beach, Calif., home.

Bob's Big Boy may have grown stale and dated to some degree, but the food-service scene should always reserve room for tradition.

The kind of customer loyalty that Wian built is irreplaceable. Today's fickle consumer flits from one new trendy place to another.

A prime reason why customer loyalty has dwindled in the industry is the constant swing toward trendiness. It is time for each segment to revive some of the basic precepts that Bob Wian and Bob's Big Boy represented.

LETTERS

Black Americans among 'best and brightest'

Editor, NRN:

As an avid reader of Nation's Restaurant News, I was most encouraged when I read your Editor's Corner titled "Blacks Face Barriers in Exec Aspirations." As a black entrepreneur in the hospitality industry, I have often questioned the absence of blacks in upper-management positions in hotels, chain restaurants and fast-food operations.

Similarly, as one of a handful of black attendees at MUFSO '89, I marveled that the only black executive who was not an exhibitor was Herman Cain. Your editorial will, I hope, enlighten those who are in a position to help remedy and this industry inequity and subsequently benefit from the correction.

Even in metropolitan areas with substantial black populations, blacks are generally found in the "back of the house" cooking, cleaning or assisting managers. While those positions are certainly essential to the success of an establishment, there are many able bodies who simply are not given the opportunity to do anything else.

The result is that I have been able to attract excellent managers whose backgrounds include Marriott, Steak and Ale, General Mills and Marriott Host. Each and every one felt that he had advanced as far as possible in a white environment and jumped at the opportunity to help build a comparable organization. While I am extremely grateful, I am saddened by the reality of my good fortune.

I hope that your readership will be enlightened by your column and that more qualified minorities will be seriously considered for executive training programs and advancement. I am not promoting tokenism; I am promoting common sense.

I truly believe that we all stand to benefit from an industry that nurtures the "best and the brightest" — which also includes black Americans.

— Richard Rennie
president
A-Train Jazz Cafe
Underground Atlanta
Atlanta

Managing by numbers is an industry epidemic

Editor, NRN:

I Thoroughly enjoyed Tim McCarthy's Oct. 2 Viewpoint. He has done a tremendous service to all us marketers and, more important, to the category in general. His contention that we are too driven by the numbers and not managing the people, products and concepts is a legitimate one.

We would all agree it is important to be quantitatively responsible but never at the expense of the "core strategy." If we can avoid falling victim to the malaise of short-term results, continue to be consumer driven and execute effectively, everybody would benefit.

Thank you for this succinct and well-written assessment of a problem that's endemic and epidemic.

— Kevin Murphy
vice president marketing/sales
Winchell's Donuts
La Mirada, Calif.

NY state wine makers overlooked in article

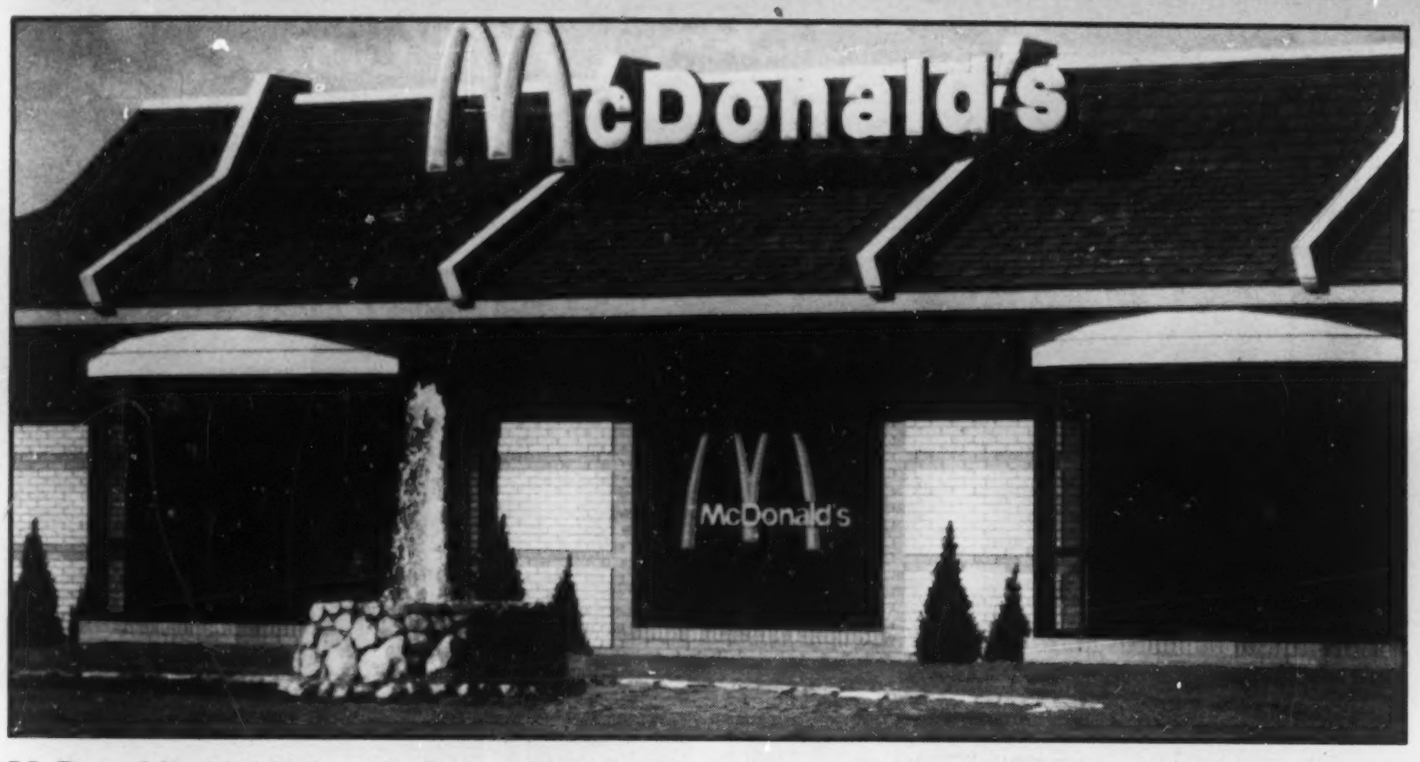
Editor, NRN:

I read with interest an excellent NRN article, "The Marriage of Wine and Food," which discussed how some of the nation's wine makers are becoming restaurateurs in an effort to educate the public on the pairing of wine and food.

I was pleased to note that the author, Alan Liddle, did look beyond California to other wine-making states for some of his material. I was disappointed, however, that his feature overlooked, unintentionally I am sure, New York, the nation's second-largest wine producer.

— Karyl L. Hammond
director of communications
New York Wine and Grape Foundation
Penn Yan, N.Y.

FINANCIAL NEWS



McDonald's 10,000th unit, located in the Washington, D.C., suburb of Dale City, Va.

McDonald's net income up 14% for 3rd quarter

By Rajan Chaudhry

OAK BROOK, Ill. — Although McDonald's Corp.'s customer counts continue to run below year-ago levels, the strength and quality of the company's earnings are taking observers by surprise.

McDonald's, the world's largest restaurant company, lifted net income 14 percent, to $217.9 million, on a 12-percent gain in revenue, to $1.63 billion, for its third quarter ended Sept. 30. And the company's earnings per share advanced 16 percent, to 59 cents.

According to the company, lower food costs more than offset higher occupancy costs. And the 5.5-percent menu-price hike that analysts blame for McDonald's lower real same-store sales helped widen margins at its company-operated restaurants to 19.3 percent of sales from 18.4 percent a year ago.

"The quality of earnings was much better than I expected," said analyst Leslie Steppel of Prudential Bache Securities, New York. "I wasn't surprised by the sales line — that was pretty much in-line with my expectations — but I wasn't expecting store level margins to expand by 90 basis points."

Nevertheless, Steppel noted she has no plans to change her ratings or estimates for McDonald's. The company took a price increase in the fourth quarter of last year, she explained, which will make comparisons more difficult.

"Had they not been raising menu prices as much as they had, they probably wouldn't have lost domestic traffic to more aggressive competitors, but the tradeoff was that they had stronger margins," she said.

'Surprisingly, earnings were a couple of cents more than I was expecting,' said Roger Lipton.

"I don't think this kind of margin expansion is sustainable," Steppel said.

Steppel advised holding McDonald's shares in the short run and accumulating them for the long haul, she said.

Roger Lipton, a managing director of Ladenburg, Thalmann & Co., New York, also said he was impressed by the quality of McDonald's third-quarter profits, which reflected only a 1-percent increase in non-operating revenues vs. a 94-percent year-over-year increase for the latest nine months.

"Surprisingly, earnings were a couple of cents more than I was expecting," Lipton said. "I've been very aggressively bullish on the stock, so it pleased me quite a bit."

"The encouraging thing was that the operating margins were up," he explained. "It was not just that the earnings were up a penny or two more than expected, but the quality of the earnings was high. There was basically minimal non-operating gains in that number."

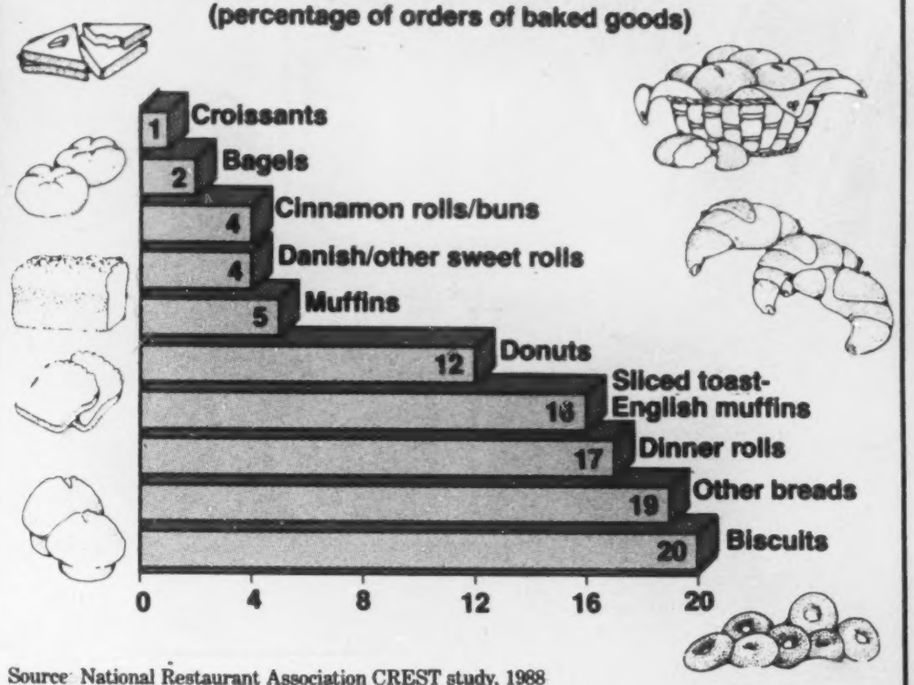
Michael Mueller, who tracks stocks for Montgomery Securities, San Francisco, rated McDonald's "a weak hold." Mueller advised investors to steer clear of traditional fast-food stocks, citing rising occupancy costs, higher margin-eating discounting rates, negative real sales trends and a general oversupply of units.

FACT FILE

A look at the statistics shaping the industry

BISCUITS BEST OTHER BAKERY ITEMS

(percentage of orders of baked goods)



Source: National Restaurant Association CREST study, 1988

NRN FINANCIAL DIGEST

Rally's unit sues takeover group

LOUISVILLE, Ky. — Rally's Inc. said its unit, Ralliana Inc., filed suit in U.S. District Court here against a group of investors — including three of Rally's own directors — who seek to mount a proxy war for control of the company.

The Ralliana suit seeks compensatory and punitive damages and injunctive relief against the group, alleging violations of federal and state securities laws, fraud and breach of fiduciary duties in connection with its attempted takeover and the failure to disclose the plan, which comes on the heels of Rally's initial public offering.

The injunction also seeks to block the group from assuming possession of any Rally's shares purchased since Oct. 12, taking any action to reconstitute the board or soliciting proxies or consents. The takeover group comprises director Burt Sugarman, a Hollywood producer and takeover specialist; directors James E. Trotter III and William E. Trotter II; Giant Group LTD, a cement company controlled by Sugarman; and a group called the Restaurant Investment Partnership.

A filing with the Securities & Exchange Commission indicated that the group holds more than 3 million Rally's common shares, or 45.2 percent of the company's outstanding stock. The group said it has filed with federal antitrust regulators for clearance to buy more than 50 percent of the company's common stock.

Bob Evans to buy back shares

COLUMBUS, Ohio — Bob Evans Farms Inc. said its board authorized the repurchase of up to 500,000 shares of its common stock.

The company, which said it will buy back the shares on the open market or through privately negotiated transactions, plans to hold the stock as treasury shares for stock options and other general corporate purposes.

Bob Evans, whose holdings include more than 200 full-service family restaurants, has about 32.2 million shares outstanding. The buy-back program expires April 27.

J. Higby's sale terms set

RANCHO CORDOVO, Calif. — J. Higby's Inc., which operates a chain of frozen-yogurt stores, said it has approved a definitive agreement to be acquired by a unit of Spinner Corp., a Chino-based candymaker and retailer.

Under the terms of the agreement, Spinner will acquire all of J. Higby's assets in exchange for the assumption of certain liabilities, 1.5 million shares of newly issued series B convertible preferred stock and 600,000 common stock purchase warrants.

The warrants will entitle holders to buy an equal number of Spinner common shares at $3 a share.

The closing of the acquisition still requires approval by Higby's shareholders and is contingent on, among other things, Higby's ability to get commitments from certain creditors to accept less than it owes them.

FOOD PRICE OUTLOOK

Mushroom prices expected to rise

The Food and Drug Administration banned **canned mushrooms** from mainland China, citing unsanitary plant conditions. A representative said Chinese canned mushrooms had been identified as causing a number of cases of food poisoning in this country. Since about two-thirds of all canned mushrooms are imported into the United States, and China recently accounted for about half of that, the ban will cut supplies by about one third of normal. Expect prices to rise sharply.

Dairy production is another area where price hikes are already occurring and will probably increase further. Although milk production is down only slightly from last year's, demand for dairy products is up. Milk for manufacturing is in short supply, and cheese makers are especially hard hit.

At the same time Americans' love affair with the pizza has increased demand for Mozzarella. Some producers are allocating customers, because supplies are short. Evaporated milk is also in short supply, with price increases expected.

Canned salmon prices are trending lower on a large pack. Both pink and red are in good supply . . . **Ham** prices continue to climb, even though U.S. supplies of hogs are even with last year's. Both canned and bagged imported hams are continuing to move up in reaction to domestic price hikes. Winter may see a price reversal as inventories build.

Frozen lima beans, both Fordhook and baby, will be in tight supply, with prices moving up. Limas for drying have been adversely affected by California rains, so those prices will move up, too . . . Expect **frozen cauliflower and broccoli** prices to move up on tight inventories and slowed imports. Damage to packers' facilities on California's Central Coast may further tighten supplies.

— Patt Patterson